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SUBJECT: AMERICAN IT COMPANIES BULLISH ON OPPORTUNITIES IN
AZERBAIJAN

BAKU 00001501 001.2 OF 002

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11. (SBU) SUMMARY: On December 3, the Ambassador met with representatives of seven American information technology (IT) companies to discuss their activities in Azerbaijan, perceptions of the business climate, and future plans. The companies outlined common challenges like the lack of qualified employees, IPR concerns, and problems working with local business partners, which many agreed were typical of transitional markets. Despite the challenges, many of the IT representatives said they had promising opportunities in Azerbaijan, particularly in e-commerce, e-governance, and e-learning, hardware and software solutions, and toll-free telephone and DSL internet services. END SUMMARY.

12. (U) On December 3, the Ambassador hosted a breakfast with representatives of American information technology (IT) companies doing business or considering opening an office in Azerbaijan. The following companies attended: 3M, AvirTel, Cisco, IBM, Microsoft, Oracle, and SilverKey. AvirTel, Microsoft, Oracle and SilverKey have local offices in Baku, while Cisco and 3M's Baku offices are regional. The visiting IBM representatives were part of an exploratory group to determine if the timing is right to open a representational office in Azerbaijan. The companies are involved in a wide range of projects like establishing a Cisco Next Generation Network to provide connectivity throughout the country, e-commerce, e-governance, and e-learning, providing mainframes and server technologies and solutions, providing software solutions, and toll-free telephone and DSL internet services.

Why Azerbaijan?

13. (SBU) Cisco and Microsoft cited strong political support obtained during meetings between their companies' CEOs and President Aliyev as their main reason for choosing to open offices in Azerbaijan. Microsoft's representative also said that working with the GOAJ to strengthen intellectual property rights (IPR) was one of Microsoft's main goals in Azerbaijan. AvirTel and SilverKey representatives said they saw a niche for introducing new technologies and initiatives like toll-free telephone service, wireless internet services, and e-commerce. IBM representatives said that reaching a monetary partner sales threshold drove their decision to explore opening an office. 3M's representative said his primary business and the reason 3M chose Azerbaijan was the company's activities in the oil and gas sector, with its IT services growing as 3M expands.

Who Are the Clients?

14. (SBU) Many American companies consider the Ministry of Communications and Information Technology (MCIT) their primary partner and client, as they work together to introduce new legislative proposals and strengthen IT infrastructure. Many companies have also established good relations with other government entities like the Ministry of Education, the Ministry of Economic Development, and the National Bank. Some companies said they are also looking to the ministries of national security and defense as potential commercial prospects in the future. Other companies like Avirtel, 3M and Oracle are focusing primarily on individual clients, or companies in the oil service and the financial sector.

What Are the Challenges?

15. (SBU) The American IT companies face many challenges in Azerbaijan, typical to transitional economies. All of the companies agreed that the biggest challenge is the lack of qualified employees due to the quality of IT education in Azerbaijan and low IT penetration. The companies agreed that IPR issues, the need to conduct due diligence on local partners, and corruption are common challenges for Azerbaijan. They also faced challenges with local business partners who they say expect immediate and short-term profitability and do not understand long-term business planning and budgeting. Participants said that they view one of their goals in Azerbaijan to "change the mentality" and approach towards the IT sector, both in business circles and the GOAJ. They agreed with the Ambassador's comment that U.S. companies adhere to the highest standards of corporate conduct, take social responsibility seriously, and are good business partners for Azerbaijan.

Future Prospects

BAKU 00001501 002.2 OF 002

16. (SBU) Despite a disappointing BakuTel, which Oracle and Cisco said resembled a job fair rather than an industry conference, the representatives were optimistic about the future of Azerbaijan's Information and Communications Technology sector and their ability to do business here. Cisco and 3M pointed out that with business growing so fast in both Azerbaijan and Georgia, they might establish independent representative offices in the latter soon. The companies supported the idea of conducting quarterly meetings to share insights and support each other.

Comment

17. (SBU) We agree with these companies that Azerbaijan, with its fast-growing economy and ambitious IT plans, presents good opportunities for U.S. IT companies. We continue to work with the GOAJ to encourage improvements to the business climate, which are key to attracting further foreign investment. We believe the February Economic Partnership Commission meeting will be a good opportunity to showcase IT investment opportunities in Azerbaijan and will encourage the GOAJ to include MCIT officials in its EPC delegation.

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